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## REPORT OF THE DIRECTOR OF THE DIVISION FOR OVERSIGHT SERVICES ON UNFPA INTERNAL AUDIT AND INVESTIGATION ACTIVITIES IN 2013

*Summary*

The present report on the UNFPA internal audit and investigation activities of the Division for Oversight Services (DOS) for the year ending 31 December 2013 responds to Executive Board decisions 2011/23 and 2013/24 and earlier pertinent Board decisions.

The report presents a review of activities completed in 2013 by DOS on internal audit and investigation. The report contains information on:(a) the overall audit assessment of the risk exposure of UNFPA; (b) significant issues revealed through DOS internal audit and investigation activities; (c) investigations, including cases of fraud and actions taken; (d) the review of internal audit recommendations issued in 2008-2013and their implementation status; and (e) the disclosure of internal audit reports.Annexes 1 to 8 are available separately on the UNFPA website.

The annual report of the UNFPA Audit Advisory Committee and the management response thereto are contained in the addendum DP/FPA/2014/6 (Add.1).The management actions undertaken in follow-up to the 15 recommendations issued by DOS in its earlier report (DP/FPA/2011/5) are contained in annex 5, which is available separately on the UNFPA website. In addition, a separate comprehensive management response to the present report is also available on the UNFPA website.

*Elements of a decision*

Elements of a decision are contained in section IX of the present report.

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# I. Introduction

1. The present report provides the Executive Board with a summary of the internal audit and investigation activitiesfor the year 2013 conducted by the Division for Oversight Services (DOS). The report is also submitted at a time when UNFPA is implementing a number of change management activities (some of which startedinpast years), to address many recommendations raised by the United Nations Board of Auditors, as well as by DOS, in their respective reports.

2. In 2013, there were major changes in DOS and its mandate:(a) the Evaluation Branch was separated from DOS to becomethe Evaluation Office in July 2013;(b) the investigations mandate was expanded to cover both allegations of wrongdoing related to UNFPA staff and those related to contractors, implementing partners and vendors; and (c) it was the first full year of public disclosure of internal audit reports.

3. In this reportand unless otherwise specified, references toDOS are solely to internal audit and investigation activities. Evaluation activities conducted under DOS responsibility until June 2013 are reported with those of the Evaluation Office in document DP/FPA/2014/7.Reference is,however,made to evaluation-related matters, where necessary,in this report.

4. Pursuant to decision 2008/37, the annual report of the UNFPA Audit Advisory Committee and the management response thereto are provided in the addendumto the present report, DP/FPA/2014/6(Add.1). Additional informationis provided in annexes 1 to 8, referred to in the text and available separately on the UNFPA website. In particular, the implementation status at year-end 2013 of the 15high-level recommendations included in the DOS report DP/FPA/2011/5, as reported by management, is included in annex 5. In addition, a comprehensive management response to this report is available separately on the UNFPA website.

# II. Assurance at UNFPA

## A. Mandate

5. Regulation 14.11 of the 2012 UNFPA financial regulations and rules, the accountability framework,[1] and the oversight policy[2] approved by the Executive Board formed the basis for the DOS mandate. DOS solely performs, manages or authorizes others to perform or manage:(a)independent internal audit services (effectiveness of the governance, risk management and internal control processes, and economic and efficient use of resources); and (b) investigation services (allegations of misconduct or breachof applicable regulations, rules and administrative or policy pronouncements).

6. The quality of DOS work was regularly monitored by the Audit Advisory Committee and theUnited Nations Board of Auditors. The Audit Advisory Committeecontinued to offeradvice to promote the effectiveness of audit and investigation services provided by DOS;[3] itreviewed the 2013 DOS annual workplan,

[1] DP/FPA/2007/20.
[2] Executive Board decision 2008/37. The 2009 evaluation policy (Executive Board decision 2009/18 and DP/FPA/2009/4) also formed part of the DOS mandate until June 2013.
[3] Until June 2013, this also included the evaluation services provided and evaluation reports issued by DOS.

budget, regular progress reports, annual report and internal audit reports. The United Nations Board of Auditors monitored the actions to implement their recommendations aimed at improving DOS operations. The external auditors continued to rely on DOS work and reports in 2013.

7. Throughout 2013, DOS received support from UNFPA senior management. The DOS Director attended the meetings of the UNFPA Executive Committee in ex officio capacity, which also provided the Director with a direct opportunity to give advice on governance, accountability or control aspects of new policies or procedures and to comment on any emerging potential risk to UNFPA.

8. In accordance with the professional standardsby which DOS is bound, the DOS Director hereby confirms to the Executive Board that DOS enjoyed organizational independence in 2013. DOS has been free from interference in determining the scope of its work, performing it and communicating its results.

### B. Basis for providing independent assurance

9. In 2013, DOSworked on 24 internal audit engagements; 1wasin an advisory capacity and 3were undertaken jointly with other organizations of the United Nations system. To maximize resource use, engagements were planned to reach different stages of completion (ranging from 'ongoing' to 'concluded and report issued') at the end of 2013.

10. As of31 December 2013, DOS issued 14 internal audit reports which are all publicly available. Thelist of all internal audit reports, with their rating,is included in annex 1 and isalso available on the UNFPA website,[4] in accordance with Executive Board decisions 2008/37 and 2011/23.

11. The 10country office internal audit reports issued in 2013reported on the status of operations and activities in 2010, 2011 or 2012 and, in selected cases, the first half of 2013. In total, they covered expenditures amounting to $105 million.Theperformance audit report of a programme[5]covered the period 2008 to mid-2011, with expenditures amounting to $446 million. Additional assurance came from the joint audit of a joint office and the audit of the financial reporting system concluded in 2013, both of which are cross-organizational in nature.Further, the control put in place by management over funds transferred to implementing partners through national execution audits provided additional assurance on $203 million in expenditures that were incurred in 2012.

## III. Resources

### A. Human resources

12. As of 31 December 2013, DOShad a total of 19approvedposts:[6] 15 at the professional level (seetable 1) and 4at the general-service level.

[4] Available at: http://www.unfpa.org/public/home/about/oversight/auditreports.
[5] The global and regional programme.
[6] Plus seven evaluation-related posts: six at the professional level (including the Evaluation Director post, previously the vacant post ofDeputy Director of DOS), and one support staff member.

13. At the end of 2013, all of the 15 approved professional postswere encumbered, with three auditors and the Chief of the Investigation Branch joining during the year. Throughout the year, vacancies affected mainlyinternal audit, with difficulties to identify suitably qualifiedcandidates, compounded by delays in some administrative steps related to the entry-on-duty process.The resulting vacancy rate was 10 per cent when excluding evaluation, and12 per centin 2013, compared with21 per cent in 2012, when considering all three oversight functions.

Table1– Human resources in the Division for Oversight Services in 2013

| | Number of approved professional posts | Approved person-months | Person-months - vacant | Percentagev acant | Vacancy adjustedpro fessional posts |
|---|---|---|---|---|---|
| Director | 1 | 12 | 0 | 0% | 1.0 |
| Special Assistant to the Director | 1 | 12 | 0 | 0% | 1.0 |
| Internal Audit Branch | 8 | 96 | 16 | 17% | 6.7 |
| Investigation Branch | 5 | 60 | 2 | 3% | 4.8 |
| **Subtotal** | **15** | **180** | **18** | **10%** | **13.5** |
| Evaluation[7] | 6 | 72 | 12 | 17% | 5.0 |
| **Total** | **21** | **252** | **30** | **12%** | **18.5** |

## B. Financial resources

14. As in 2012, in 2013DOS receivedfunding from: (a) the UNFPA institutional budget; and (b) UNFPA programme resources. The total 2013 budget for thethree oversight services, adjusted for the 2013 actual vacancy rate, amounted to roughly $6.9 million, of which $6.0million (87per cent) stemmed from institutional budget funds and $0.9 million (13per cent) from the UNFPA global and regional programme and other resources. Overall, there was an increase in adjusted budget funding for the three oversight services by 10 per cent compared with 2012 ($6.3 million), which corresponds mainly to the decreased vacancy rate mentioned above(see details in table 2below).

Table 2– Overview of financial resources, 2012-2013*

| Function | 2012 | | 2013 | |
|---|---|---|---|---|
| | Vacancy adjusted posts | Vacancy adjusted budget (in $ million) | Vacancy adjusted posts | Vacancy adjusted budget (in $ million) |
| Internal audit | 7 *(6+1)* | 2.1 | 7.7 *(6.7+1)* | 2.5 |
| Investigation | 4.6 *(3.6+1)* | 1.2 | 5.8 *(4.8+1)* | 1.3 |
| DOS management and support | 4 *(2+2)* | 1.0 | 4*(2+2)* | 1.1 |
| Audit Advisory Committee | - | 0.2 | - | 0.2 |
| **Subtotal** | **(not comparable)** | | **17.5 *(13.5+4)*** | **5.1** |
| Evaluation | 6*(5+1)* | 1.8 | 6*(5+1)* | 1.8 |
| **Total** | **21.6 *(16.6 +5)*** | **6.3** | **23.5 *(18.5 +5)*** | **6.9** |

(*) In parentheses and italics, the number of professional and general service staff.Budget figures are from year-end after adjustment to reflect actual vacancy rate andentitlements figures.

[7]Staff of the former DOS Evaluation Branch and Director of the Evaluation Office (former Deputy Director of DOS post).

# IV. Internal audit

## A. Risk-based audit planning

15. DOS executes its assurance activities based on a risk-based audit plan, approved by the Executive Director after review by the Audit Advisory Committee. The plan is based on a documented risk assessment of the audit universe, which is composed of 146 business units[8] and 50corporate processes. Risk is measured through a set of factors, representing the potential impact and likelihood of events that might adversely affect the achievement of objectives.

16. The business unit auditrisk assessment is based on financial and programmatic information indicative of: (a) materiality of programme expenditures; (b) programme complexity; (c) programme changes, including impact of key corporate priorities; (d) quality of governance and control of fraud and corruption[9] in the country where the unit is located; (e) capacity of the business unit to manage the programme, and(f)results of consultations with management at headquarters and regional offices.

17. The separate-risk model used for the auditrisk assessment of corporate processes reflects factors relative to: (a) financial materiality; (b) impact and complexity of those processes; (c) level of change affecting those processes; (d)effectiveness of the controls and systems in place; and (e) capacity of the business units responsible for managing controls and systems. The model also reflects consultations with relevant management.

18. The 2013 internal audit workplanwas based on the 2012 audit risk assessment presented in document DP/FPA/2013/6 (on pages 7-9) and resources available (internal audit staff, augmented by audit professional-services firms). High-risk business units were to be audited overa 9-year cycleand medium- and low-risk business units over a 17-year cycle; all other entities followed an ad-hoc audit pattern. The 2013 plan also included three joint audits agreed upon by the Representatives of Internal Audit Services of the United Nations system organizations (UN-RIAS)based on a separate audit risk assessment of joint programmes.

19. Based on the increased resources approved for internal audit in the institutional budget, 2014-2017 (using staff augmented by audit professional services firms), it is expected that high-risk business units will be covered over a 5-year cycle and medium-risk business units over a 10-year cycle. Assurance for low-risk business units is foreseen to be provided through a continuous auditing system,which will be implemented starting 2014, based on the review, from headquarters, of documentation and information onselected key controls and significant financial transactions of these units. Corporate processes will be covered over a 15-year cycle, including the feedback and assurance on the operating effectiveness of several of these processes provided through business unit audits.

[8]Country offices, regional and subregional offices, liaison offices and headquarters units involved in programme delivery activities.
[9]Based on the indicators published by the World Bank.

## B. Results of the 2013 audit risk assessment to support the 2014 internal audit workplan

20. UNFPA is exposed to risks arising primarily from its highly decentralized operations, with 139 field offices worldwide, several of which operate in fragile settings,and from complexprogrammes. UNFPAprogrammes are implemented at global, regional and country levels,coveringdifferent thematic areas and incorporating several key corporate priorities. The programmes are delivered by numerous implementing partners, with different degrees of capacity,supported bymultiple annual workplans developed and managed with limited integrated systems and tools. The risk derived from programme complexity has been partially mitigated by management efforts to focus onfeweroutcomes and outputs that are more closely aligned with core mandate areas.

21. Additional complexity, hence risk, stems from: (a)the need to rapidly scale up humanitarian response activities in several programme countries affected by conflicts; (b) the sizeable and dispersed workforce, with extensive use of consultants; (c) the large commodity security programme that entails the procurement and distribution of a significant volume of contraceptives to national partners, creating multiple supply-chain management challenges; (d)the significant level of local procurement of goods and services, with limited monitoring; (e)the increasing proportion of non-core funding, with specific compliance and reporting requirements, increasing the workload for the business units managing it; and (f) thelarge volume of financial transactions required to execute programme activities.

22. Table 3,below, summarizes the assessment results for business units and corporate processes, by audit risk-level.

Table 3 – Overview of audit risk assessment results for 2013

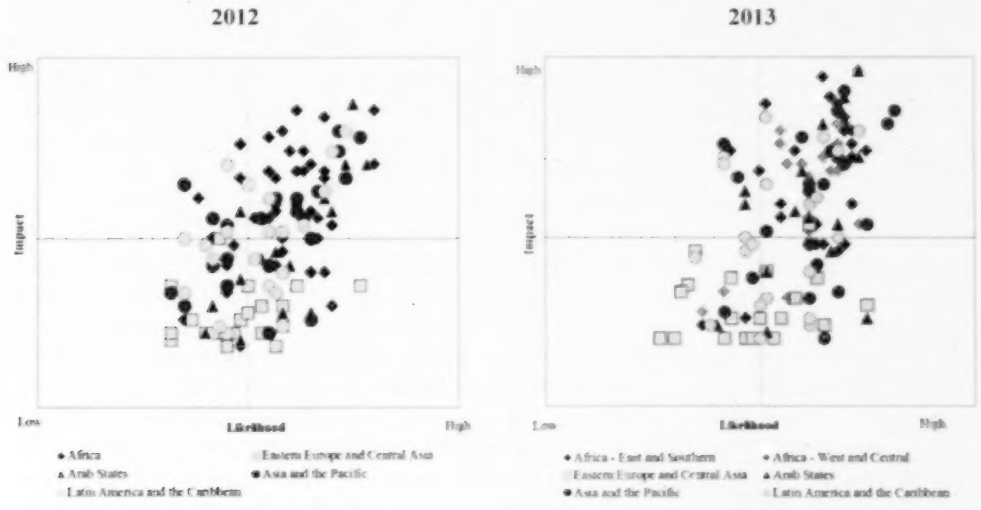
| Business Units | High risk | Medium risk | Low risk | Total |
|---|---|---|---|---|
| Country offices | 33 | 50 | 42 | 125 |
| Regional and sub-regional offices | 4 | 2 | 2 | 8 |
| Liaison offices | - | - | 6 | 6 |
| Headquarters units involved in programme delivery (global interventions) | 4 | 3 | - | 7 |
| **Total business units** | **41** | **55** | **50** | **146** |
| **Corporate processes** | **24** | **24** | **2** | **50** |

Business unit audit risk assessment

23. Figure 1on the next page summarizes the results of the 2012 and 2013 audit risk assessment for field offices[10] which managed expenditures amounting to $628 million in 2012 (75 per cent of total annual expenditures) and $701 million in 2013 (74 per cent of total annual expenditures).

[10] The 2013 graph also reflects the separation of the Africa region into two regions.

Figure 1– Field offices audit risk assessment




24. The larger number of points in the upper right quadrant in 2013 reflects primarily the increase in programme size and the impact of corporate initiatives in several country offices, especially in the East and Southern Africa, West and Central Africa, and Asia and the Pacific regions.

25. Further, the concentration of points in the upper and lower right quadrants reflects the persistence of risks affecting field office operations. These include:(a) high vacancy levels in key managerial and operational positions; and (b) control weaknesses in the areas of: (i) programme management; (ii) programme monitoring; (iii) national execution; (iv)inventory management; (v) management of non-core resources; and (vi) compliance with policies and procedures in various operational areas. They will be elaborated in section C infra.

Corporate audit risk assessment

26. The 2013 corporate audit risk assessment identified five key audit risk areas:(a) the implementation ofthe integrated results framework of the strategic plan, 2014-2017, with the new business model and resource allocation system; (b) the implementation of the new global and regional interventions and other key corporate initiatives; (c) the adequacy of governance arrangements, including the role and responsibilities of regional offices, to support an effective implementation of the new strategic plan and to address the issues raised in two recent audits (the audit of governance arrangements in support of country office programme delivery and the performance audit of the global and regional programme); (d) delays in the finalization of the internal control framework (particularly for programming processes and information and communication technology) and in the implementation of a comprehensiveenterprise risk management (ERM) process; and (e) the operationalization of the new human resources strategy.

27. The twelve corporate processes assessed as high risk include: (a) programme management, in view ofrecurring audit issues in this area, the ability of field offices to implement the revised policy issued in 2012 and the changes that will result from the introduction of the new global programming system; (b) supply-chain and inventory management, as a result of the significant increase in the volume of contraceptives procured and distributed globally, and the logistical challenges related thereto; (c) implementing partner management, given the large number of partners and their varying capacity levels; (d) resource mobilization and management of non-core resources, with the continued dependency on a small number of donors and the growing relevance of non-core funding; (e) humanitarian response, given the increased frequency and complexity of the related programme interventions; (f) provision of quality-assured technical assistance to field units; (g)budget management, with the implementation of the new integrated budget, resource distribution system and cost recovery policy; (h) financial monitoring, withthe information system functionality required to allow for a more effective management oversight; (i) the revised assurance set-up related to the harmonized approach for cash transfersto implementing partners(HACT)that UNFPA implements, on a pilot basis, as from 2014; the operating effectiveness of the (j) performance management;(k) recruitment processes; and (l) information and communication technology, with its new strategy,and the ability to successfully implement critical systems and services, such as the newoutsourced messaging and collaboration system, the strategic information system and the previously mentioned global programming system.

## C. Internal audit activities in 2013

28. In line with the risk approach described in paragraphs15 to 18, the 2013 internal audit plan included 24engagements covering a mix of six high-risk, fivemedium-riskand five low-riskbusiness units, four high-risk corporate processes, three joint audits and one engagement in advisory capacity. In order to maximize resources, engagements were planned to reach varying degrees of completion by year-end, with 21final reportsplanned to be issued.

29. Table 4on the next page presents acomparisonof 2013 planned-versus-achieved audit engagements, by completion level. All 24 engagements were undertaken as projected, though not all have reached their foreseen completion level. Despite the use of audit consultant services firms to augment DOS staff capacity on a dozen engagements, the later-than-anticipated arrival of the three newly recruited auditors, force majeure situations and the increase in advisory demands led to14 reports being issued(versus 21 planned) and 10engagements being ongoing(versus 3 planned) at year-end.Of the latter 10, management answers were awaited for 2 draft reports;7 reports were being drafted; and 1 audit was under way.

Table 4 – Overview of engagements in 2013

| Status | Business units[a] | Corporate processes | Advisory[b] | Total |
|---|---|---|---|---|
| **Summary of planned engagements for 2013** | | | | |
| Draft reports issued in 2012 to be finalized in 2013 | 4 | 1 | - | 5 |
| Audits started in 2012 to be completed in 2013 | 3 | 1 | - | 4 |
| Audits started and completed in 2013[c] | 8 | 3 | 1 | 12 |
| **Total reports to be issued in 2013** | **15** | **5** | **1** | **21** |
| Audits started in 2013 to be completed in 2014[d] | 3 | - | - | 3 |
| **Total engagements** | **18** | **5** | **1** | **24** |
| | | | | |
| **Summary of engagements undertaken in 2013** | | | | |
| Audits started in 2012 and completed in 2013 | 7 | 1 | - | 8 |
| Audits started and completed in 2013[c] | 4 | 1 | 1 | 6 |
| **Total reports issued in 2013** | **11** | **2** | **1** | **14** |
| Draft reports issued by year-end 2013[e, e] | 2 | - | - | 2 |
| Audits started in 2013 to be completed in 2014[e, f] | 5 | 3 | - | 8 |
| **Total engagements** | **18** | **5** | **1** | **24** |

[a] Includes country offices, headquarters units and joint audits
[b] Limited scope review of the UNFPA 2012 financial statements
[c] Includes one joint audit
[d] Includes two joint audits
[e] Final reports issued in January 2014
[f] Seven of which were at draft reporting stage by year-end

## D. Key findings of internal audit activities

Country office audits

30. Tencountry office audit reports were issued in 2013. They coveredthree standard areas, with their sub-areas:

(a) Office governance and management:(i) office management, (ii) organizational structure and staffing, and (iii) risk management;

(b) Programmemanagement: (i) programme planning, (ii) implementation and monitoring,(iii) national execution,(iv) resource mobilization,(v) management of non-course resources, and (vi) inventory management: and

(c) Operations management: (i) human resources, (ii) procurement, (iii) travel, (iv) asset management, (v) financial management, (vi) information and communications technology, and (vii) safety and security.

The depth of analysis in each area depended on the results of the engagement audit risk assessmentthat was conducted at the planning stage. DOS conducted twodesk audits from headquarters, without a field mission.

*Audit ratings*

31. Each country office was rated based on the assessment of the governance, risk management and internal control processes in place. Of the 10 country office audits concluded in 2013, 3were rated as 'satisfactory',[11]6as 'partially satisfactory',[12] and 1as 'unsatisfactory'.[13] Ratings were also provided by standard area(as defined in paragraph 30 above), and are summarizedintable 5below.

Table 5– Audit ratings by area

| Area | Satisfactory | | Partially satisfactory | | Unsatisfactory | |
|---|---|---|---|---|---|---|
| | Number of offices | Per cent | Number of offices | Per cent | Number of offices | Per cent |
| Office governance and management | 7 | 70% | 2 | 20% | 1 | 10% |
| Programme management | 2 | 20% | 6 | 60% | 2 | 20% |
| Operations management | 4 | 40% | 6 | 60% | - | 0% |

*Main findings*

32. The key opportunities for improvementrevealed in 2013 are consistent with those identified and reported in previous years, as well as with the overall 2012 audit risk assessment results.Key findings (good practices and improvement opportunities) are presented below by area and sub-area, mirroring the structure ofcountry office reports. Atabular overview isincluded in annex 2.

*(i) Office governance*

33. The audits disclosed several good practices, some of which are replicable: (a) clear and relevant office management plans in some offices; and (b) programme and operations staff who are well aware of their respective roles and responsibilities, increasingly understanding UNFPA policies and procedures and, in some offices,holding regular meetings to exchange information, monitor programme implementation and improve coordination.

34. The audits recommended performing regular reviews of the offices' organizational structure and staffing to ensure that capabilities remain aligned to programme delivery needs. The audits alsoidentifiedthe need to: (a) reduce the level of vacancies in key positions; (b) implement better arrangements for interim officer-in-charge assignments; and (c) enhance the support fromand oversight by regional offices and headquarters for offices experiencing extended vacancies.

35. Additional needs forimprovementsthat wereidentified include:(a) implementing controls over the accuracy of information reported in the country office annual reports as such information is used as abasis for the preparation of the annual report of the Executive Director; and (b)updating the fraud and operational risk assessments annually,

[11] No issues were identified that would significantly affect the achievement of the objectives of the audited entity.
[12] One or more issues were identified that could negatively affect the achievement of the objectives of the audited entity.
[13] One or more issues were identified that could seriously compromise the achievement of the objectives of the audited entity.

ensuring that there are well-defined processes to identify, assess, register and track risk factors.

*(ii) Programme management*

*(ii.a) Programme planning, implementation and monitoring*

36. The audits revealed that several countrieshad developed tools locally to track workplan implementation. These could be assessed for potential replication throughout UNFPA.

37. The audits continued to reveal needs for improvement in: (a) programme planningtoreducedelays in implementing programme activities; (b) timely finalization and management of annual workplans; (c) enhanced programme financial management and budgetary controls,supported by (d) a better AtlasPeopleSoft™ softwareset-upfor annual workplans and budgets. Notwithstanding the improvement in the programme management corporate guidelines revised in 2012, the audits notedacontinued need for consistency in programme implementation, in particular formonitoring activities and the results achieved. Management attention is further requiredregarding programme coordination and assistance costs to ensure that,following applicable policies,only allowable expenditures are charged to projects.

*(ii.b) National execution*

38. Additional management attention is necessary to ensure that the capacity of implementing partners is adequately assessed before engaging them and that the new UNFPA capacity assessment tool released in 2012 is used in an effective manner. Additionally, there isaneed to strengthen theharmonized approach tocash transfersto implementing partners(HACT) micro-assessments to cover more than thefinancial management capability of implementing partners and to integrate micro-assessments better with the UNFPAexisting assessments.

39. Controls in the operating fund account management process have consistently improved over the last three years, includingmore robust monitoring executed by headquarters staff. Opportunities for improvement continue to existregardingthe financial monitoring of implementing partners. For instance, the audits revealed recurring instances of funds transferred to implementing partners outside the operating fund account process, therebycircumventing applicableoperating fund account controls, including national execution audits. Similarly, the audits identified activities carriedout by implementing partners that were recorded as direct execution by UNFPA, instead of national execution. These two situations reduce management assurance on the appropriate utilization of funds provided to implementing partners. More details on operating fund account and national execution statusare presented in annexes2 and 6.

*(ii.c) Inventory management*

40. One audit revealed the use of a logistics company to manage downstream sexual and reproductive health commodity supply-chain management activities, a practice to consider for replication if proven cost-effective for other countries.

41. Additional management attention is required to enforce compliance with the inventory management policy issued in December 2012. In particular, there is a need to:(a) ensure that receiving and inspection reports are prepared upon receptionof inventory; (b)better document the handover of inventory to implementing partners; and (c)improve warehouse management controls, by both those country offices authorized to hold inventory and the implementing partners to which inventory is supplied.

*(ii.d) Management of non-core resources*

42. The audits noted that smaller country offices should enhance their management of non-core resources, with better planning and monitoring and timelyreporting to donors.

*(iii) Operations management*

*(iii.a) Procurement*

43. The audits revealed several good practices regarding medical equipment procurement, e.g.,the involvement of technical experts to develop specifications and implementing partners to review and approve them, as well as the participation of implementing partners in the contract award process (where applicable).

44. Controls over the procurement process have improved. Further enhancements are required, e.g.,through strengthened procurement planning and increased use of long-term agreements to increase procurement efficiency and value-for-money. Receipt controls and submissions to contract review committees should also be enhanced.

*(iii.b) Human resources*

45. The audits continued to stress the need for improved compliancewith the policies and procedures applicable toawarding and managing service contracts and special service agreements.They also emphasized the continuous attention necessary on the leave management process and controls over leave balance accuracy. Compliance with mandatory training requirements should also be reinforced.

*(iii.c) Financial management*

46. Using local banks or micro-credit companies for paying daily substance allowances to training participantsand bank-issued cards for fuel payment could be considered for replication across UNFPA.

47. However, errors in the allocation of expenditures to project, fund and general ledger account codeshave persisted, diminishing the overall reliability of information for financial reporting and monitoring purposes. In addition, several audits revealed the need to improve the handling of valueadded tax, e.g., the accounting ofreimbursable value-added-tax as well asthe timely submission and follow-up of tax reimbursement claims.

*Recommendations made*

48. Overall, 105recommendations were issued to the 10country offices, as detailed in figures 2, 3 and 4 on the next page: 38 (36 per cent of total recommendations) were rated as high priority, and 67 (64per cent) were rated as medium priority. Most recommendations concerned the areas of programme management and operations

management(50and 40 per cent, respectively). The analysis underlined the need to strengthen supervision, primarily at the country office level ('guidance': 70 recommendations), as opposed to issuing more policies ('guidelines': 31 recommendations) or providing more resources. The needfor strongersupervisionshould be comparedwith the high proportion of 'operational' (44 per cent) and 'compliance' (41 per cent) related recommendations.

Figure 2–2013Country office audit recommendations – by priority level

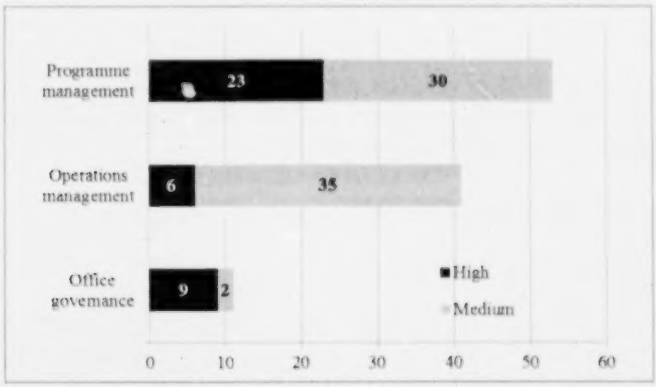



Figure 3 –2013 Country office recommendations - by type

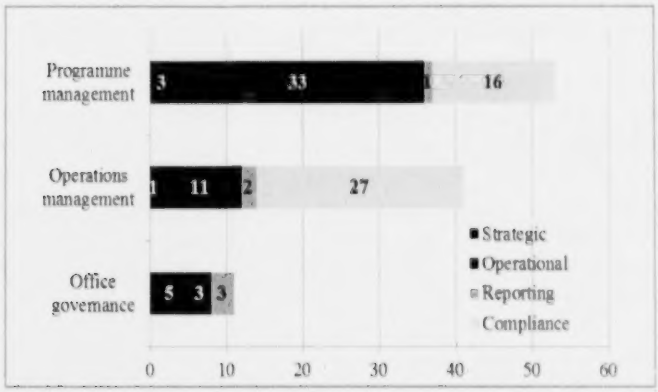
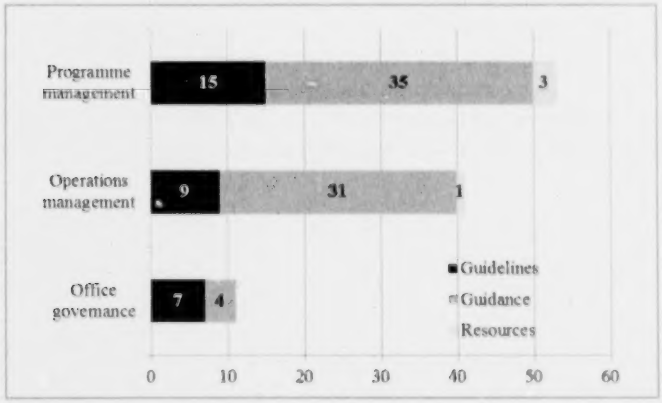



Figure 4–2013Country office audit recommendations - by cause



Joint audits

49. DOS participated in the joint audit of the Cape Verde joint officewhich was rated as 'partially satisfactory'. Six out of the 18 recommendations[14] issued were ranked as high priority. They were related to the need for a joint resource mobilization strategy, increased compliance with the 'One Transition' fund resource allocation criteria, enhancing the sustainability of the Resident Coordinator office support structure, addressing delays in programme planning and gaps in implementing monitoring activities. Progress on recommendation implementation is tracked and reported by UNDP.

50. DOS also participated in the joint audit of the "Delivering as one"programme in Pakistan and in the coordinated audit of the Common Humanitarian Fund for Somalia,both of whichwere under way at year-end.

Corporate processes and headquarters units

*Audit of the global and regional programme*

51. The performance of the global and regional programme was rated as 'unsatisfactory' due to weaknesses in its design, governance and management,and execution. The performance audit report includes one high-priority recommendation: for management to consider the most appropriate model for the global and regional programme (or its successor programme) to help UNFPA to achieve its strategic goals and address the issues identified by the audit in an effective and sustainable manner.

52. In January 2014, management provided the Executive Board with aconference room paper[15]that outlinesa draftstrategic framework for the successor ofthe global and regional programme:the strategic framework for global and regional interventions,2014-2017. The document underlines that the strategic framework design was informed by the audit of the global and regional programme; the document also stressesthe foreseen improvements compared with the previous programme. As part of its 2014 recommendation follow-up, DOS will review the degree to which the issues raised in the audit have been addressed.

*Audit of the corporate reporting system*

53. This audit wasaimed at assessing the reliability of controls related to the 'Cognos'-based corporate financial reporting system. The rating was 'partially satisfactory'. The audit identified several good practices for the extraction, transformation and loading of data, and for restricting access to the report development and administration functions. It also highlighteda fewissues requiring management attention, such asformalizing the report development and maintenance process, as well as enhancing thepolicy on report usage. The audit report contains six recommendations, all of them rated as medium priority.

[14] These are not included in the number of recommendations issued in 2013.
[15] DP/FPA/2014/CRP.1, dated 24 January 2014.

## E. Follow-up of internal audit recommendations

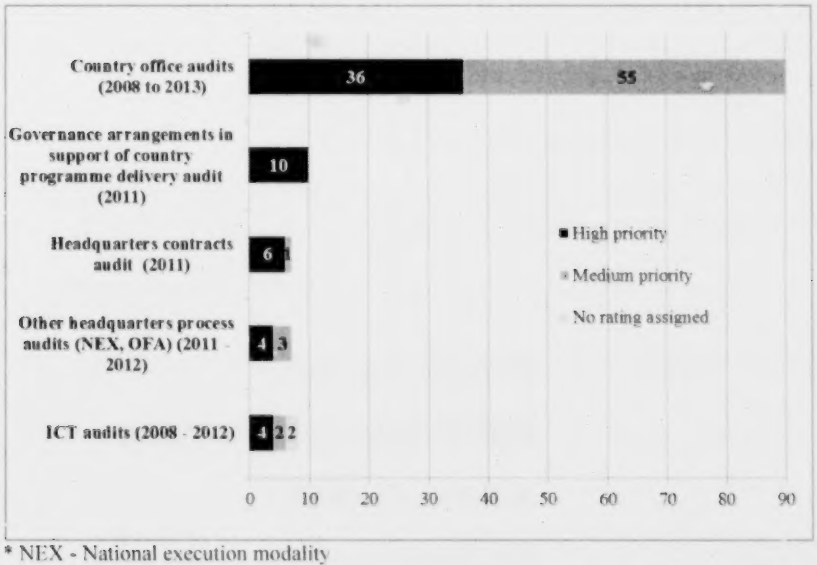
Outstanding recommendations

54. The Audit Monitoring Committee,chaired by the Executive Director, was established in 2011. Throughout 2013, itmaintained its ongoing review of the status of implementation of audit recommendations. Together with the regular follow-up by DOS, this process enabledthe implementationof 111 recommendations in 2013. As shown intable 6, 123recommendations[16]remained open as at 31 December 2013: 91(74 per cent) pertained to country offices and 32 (26 per cent) to headquarters units and corporate processes. Half of them were high priority (see details in figure 5).

Table 6 – Status of implementation of audit recommendations by year

| Year | Number of reports | Recommendations issued | Outstanding recommendations | |
|---|---|---|---|---|
| | | | 2012 | 2013 |
| 2008-2010 | 57 | 1,976 | 28 (2%) | 6(~0%) |
| 2011 | 11 | 248 | 71 (29%) | 27 (11%) |
| 2012 | 3 | 37 | 23 (62%) | 8 (22%) |
| **Subtotal** | **71** | **2,261** | **122 (5%)** | **41 (2%)** |
| 2013 | 12 | 112 | n/a | 82 (73%) |
| **Total** | **83** | **2,373** | **n/a** | **123 (5%)** |

Figure 5– Recommendations outstanding as of31 December 2013*




* NEX - National execution modality
OFA - Operating fund account
ICT - Information and communications technology

[16] The status of joint audits is excluded from this figure, and is reported by UNDP.

55. Country office outstandingrecommendations correspond to 11 offices; all but 3 were recently audited. Of the 91 open recommendations, 42pertain to programme management (particularly inventory management, programme planning and national execution;13,12 and 10 recommendations respectively); 39 to operations (particularly financial management with 14 recommendations),and 10 to office governance.Opportunities for improvement wereelaborated previouslyin paragraphs 32 to 47.

56. Outstanding recommendations from the 2011 governance audit relate to improvement opportunities identified in the areas of: (a) regional office roles and activities; (b) the monitoring of regionalization efforts; (c) annual workplan Atlas PeopleSoft™ softwareintegration and set-up; (d) programme financial-management mechanisms; (e) roles and responsibilities for the provision of quality-assured technical assistance based on needs assessments and supported by a corporate system for its delivery and monitoring; and (f)tools and training to build the monitoring capacity of country offices. Management actions to implement these improvement opportunities have been ongoing since 2012.

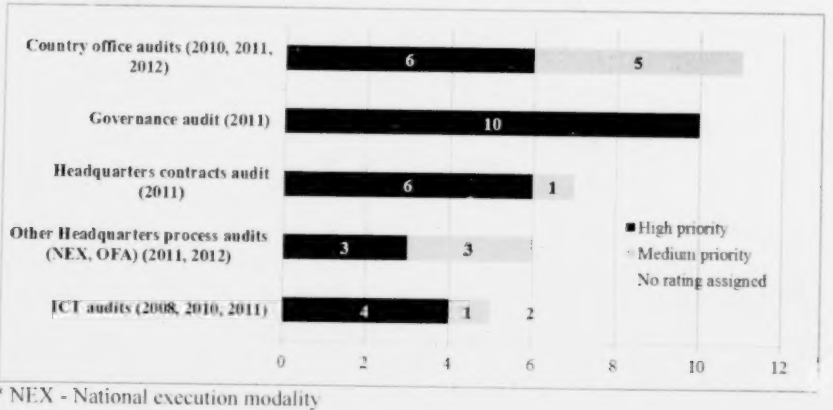
57. Outstandingrecommendations from the headquarters contracts audit completed in 2011 relate to: (a) more clearly defining the ownership of the contract management process and enhancingcontracting process documentation in the policies and procedures manual and in the internal control framework; (b) implementing an integrated, end-to-end contract management system; (c) designing and implementing preventive controls to enforce contract award approval requirements; (d) implementing stronger accounts payable controls; and (e)enhancing the vendor performance assessment process. Management actions to address these gaps have been ongoing since 2012.

58. The number of outstanding recommendations related to information and communications technology dropped in 2013 as a result of management efforts to develop new policies and enhance core processes in this area.

Recommendations unresolved for 18 months or more

59. Of the 123 openrecommendations, 41 remained unresolved for 18 months or more as of 31 December 2013 (seefigure 6). A detailed list is provided in annex 4.

Figure 6– Recommendations unresolved for 18 months or more*




* NEX - National execution modality
OFA - Operating fund account

ICT - Information and communications technology

## F. Compliance with the oversight policy – disclosure of internal audit reports

60. The procedures for disclosure, as stipulated in DP/FPA/2008/14 and amended by subsequent Executive Board decisions in 2011, were in force throughout 2013.Following those procedures, 12internal audit reports were disclosed: 11 at the request of the Sweden and 1at the request of the United Kingdom of Great Britain and Northern Ireland. The disclosure took place remotely, and was undertaken under conditions of confidentiality, as per relevant Executive Board decisions.

61. Since 1 December 2012, all internal audit reports have been public. Board decision 2012/18 (paragraph 20) includes a request from the Director, DOS, for an analysis in2014 of experience gained from public disclosure since its inception.

62. For DOS, public disclosure led to improvedreport clarity, as reports are written for an audience potentially unfamiliar with UNFPA. Such attention lengthened the time spent on reportdrafting and finalization. Public disclosure also simplified the disclosure process comparedwiththe one set up through decision 2008/37.Further, public disclosurecontributed to enhanced management attention, with sharpened answers and timelier action on audit recommendations fostered by the regular and publicly available updates on implementation rates. Overall, public disclosure contributed to a deepened dialogueand enhanced transparency and accountability.

# V. Investigation

63. The Investigation Branch ofDOS is responsible for conducting investigations into all types of allegations of misconduct by UNFPA staff, ranging from fraud and corruption to workplace harassment, abuse of authority, retaliation against whistle-blowers, sexual exploitation and abuse, and other violations of applicable regulations, rules and administrative or policy issuances. These are referred to as 'internal investigations'.

64. DOS also conducts so-called 'external investigations', i.e., investigationsinto wrongdoing, including fraud and other financial irregularities, committed to the detriment of UNFPA by independent contractors, implementing partners and other third parties.

## A. Caseload

65. In 2013, DOS received 61 complaints, an increase of 265 per cent compared with the 23 complaints received in 2012.[17]Together with the 20 cases carried forward from 2012, this resulted in a total caseload of 81 cases in 2013, compared with42 cases in 2012 (see table 7on the next page).The increase stems in part from the transfer of harassment allegations from the Division for Human Resources to DOS in November 2012 (see paragraph 68infra). It is expected that the caseload will further increase in 2014 due to the expanded DOS mandate to include external investigations.

[17]Excluding information received marked 'for information'.

Table 7– Overview of cases received and closedin 2013*

| | 2012 | Per cent | 2013 | Per cent |
|---|---|---|---|---|
| Cases carried over | | | | |
| - from 2011 or earlier | 19 | 45% | 4 | 5% |
| - from 2012 | | | 16 | 20% |
| Complaints received | 23 | 55% | 61 | 75% |
| **Total caseload** | **42** | **100%** | **81** | **80** |
| **Cases closed** | | | | |
| After preliminary assessment | 17 | 77% | 40 | 85% |
| After full investigation | 5 | 23% | 7 | 15% |
| of which substantiated | 4 | 18% | 6 | 13% |
| unsubstantiated | 1 | 5% | 1 | 2% |
| **Total cases closed** | **22** | **100%** | **47** | **100** |
| **Cases carried over to the following year** | **20** | | **34** | |

* A complaint may contain several allegations pertaining to different individuals and lead to several reports, as appropriate.

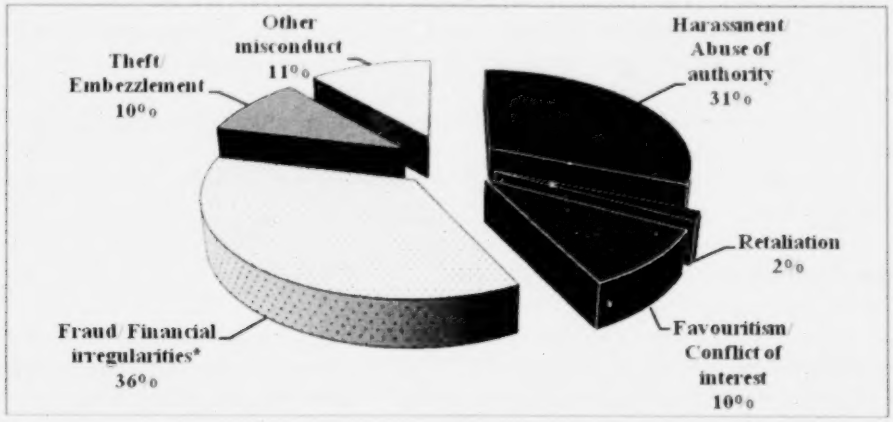
66. The figures above exclude the numerous requests for information or advice which DOS additionally deals with.

67. Of the 34 open cases carried over to 2014, all but 2were received in 2013. Twenty-eight involve staff misconduct (internal cases); six concern fraud and financial irregularities committed by independent contractors, implementing partners or other third parties (external cases).

## B. Types of complaints

68. As shown in figure 7on the next page, 46 per cent of cases received in 2013 (28 cases) involved fraud and financial irregularities, including entitlement fraud, procurement fraud, theft and embezzlement, and misuse of UNFPA resources. The relative decrease compared with2012, when fraud and financial irregularities constituted 70 per cent(16cases) of complaints received, is due to the expanded DOS mandateinto workplace harassment and abuse of authority. The latter represented 31 per cent (19 cases) ofcomplaints received and was the second largest category, followed by allegations of favouritism and conflict of interest (10 per cent, 6 cases) and other forms of misconduct without financial implications, e.g., security breaches, (11percent, 7 cases). One case (2per cent) concerned an allegation of retaliation against whistle-blowers.

Figure 7– Overview of complaints received in 2013




* Includes the sub-categories of procurement fraud, entitlement fraud, misrepresentation and misuse of UNFPA resources.

69. Sixty-one per cent of complaints received in 2013 were referred by individual complainants; 6 per cent were received through the DOS confidential investigation hotline, and 33 per cent via other means, for example, from referrals from entitiesexternal to DOS or UNFPA.

## C. Disposition of cases

70. After receipt of a complaint, DOS conducts a preliminary assessment to determine whether there are reasonable indications of wrongdoing. When DOS determines that there are insufficient grounds to merit a full investigation, the matter will be closed, documented with a closure note and, when appropriate, referred for informal resolution. If the assessment establishes sufficient indications that wrongdoing has occurred, DOS opens a formal investigation, which may cover a number of allegations. Should the allegation(s) be substantiated, DOS issues an investigation report by subject to the Executive Director, for appropriate administrative or disciplinary action against the staff or other personnel involved and, when appropriate, for recovery of funds or assets. When an investigation reveals systemic weaknesses in internal controls, DOS may issue aseparate report to management recommending how to strengthen them.

71. Of the total caseload of 81 cases, 47 were finalized in 2013; 40 were closed after apreliminary assessment and 1 after a full investigation as the allegations were not substantiated (see table 7). The figures above also include situations referred for informal resolution.

72. Six cases were substantiated, three of which were complex in nature and included several allegations. Investigation reports were issued for all cases. Three out of the six cases involved entitlement fraud; one case concerned misrepresentation of travel expenses; a fourth case concerned workplace harassment and one, unauthorized participation in public demonstrations. More details appear in annex 7.

73. The aggregate value of 2013 substantiated cases that involved fraud and financial irregularities amounted to roughly $196,000.

### D. Disciplinary measures or sanctions taken

74. For the case pending managementaction at year-end 2012, management concluded that the evidence provided was insufficient to substantiate the allegation.

75. Of the six cases substantiated in 2013, management initiated immediate action for four of them, including recovery of funds where appropriate; in two of the four, the subjects resigned in the stages following investigation. At year-end, management was reviewing the two remaining cases.

### E. Strengthening of investigation capacity

76. In 2013, DOS further strengthened its investigative procedures and practices. Anew case management system was implemented that allows systematic tracking, managing and reporting of individual cases and of systemic weaknesses. Improved reporting tools were introduced and published on the UNFPA publicwebsite, including an updated confidential investigation hotline. DOS revised and is in the process of implementing its investigation guidelines to ensure compliance with emerging jurisprudence and recognized best practices.

77. The average number of cases per investigator doubled, from approximately 10 cases per investigator in 2012 to 20 in 2013. Cases, particularly those related to fraud and financial irregularities, are often complex and resource intensive. In 2013, DOS had to rely temporarily on the support of investigation consultants. In 2014, a further increase in caseload is expectedwith the expanded mandate over external investigations, which would exceed the current DOS capacity and require continued reliance on investigations consultants.

### F. Support to detection and prevention activities

78. In an advisory function, DOS actively supported the Procurement Services Branchin devising a vendor sanction framework at UNFPA, together with the Legal Office. DOS will proactively continue its role in 2014, within its resources.

79. In addition, DOS, in close collaboration with the Ethics Office and Legal Office, prepared the updated UNFPA answer on the status of implementation of the United Nations Convention against Corruption, as part of the Integrity Initiative of the Chief Executives Board.

## VI. Advisory activities

80. Advisory services cover a wide range of issues relating to internal control concerns, policies, business processes, proposed agreements, and specific issues on which management may request DOS views. It continues to be underscored that DOS does not assume any management responsibilities, for example, in making decisions or implementing recommendations emanating from DOS.

81. During 2013, DOS provided comments on more than a dozen draft policies and procedures, e.g., on grants, joint programming guidelines, harassment and abuse of authority, or the previously mentioned vendor sanction mechanism (see paragraph

78above). DOS also continued its participation as an observer in various steering or working committees, for instance, on the International Public Sector Accounting Standardsor the Audit Monitoring Committee. DOS, drawing on all its branches, provided comments on several draft strategic documents, like the strategic plan, 2014-2017,and the implementation of General Assembly resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system.

82. In order to ensure compliance with Executive Board decisions, financial regulations and rules, andthe inclusion of appropriate oversight-related language, DOS further contributed to negotiations of more than 25 draft donor agreements, reviewing multiple versions of audit, investigation and evaluation[18] clauses.DOS also responded to multiple requests and reviews of Member States and other bodies of theinternal audit, investigation and evaluation[19] functions.

## VII. Coordination within the United Nations system

### A. Internal audit

83. In 2013, DOS pursued its active involvement in inter-agency activities and meetings. DOS participated in the meeting of Representatives of Internal Audit Services of the United Nations Organizations, Multilateral Financial Institutions and Other Associated Intergovernmental Organizations to exchange practices and experience.

84. DOS remained an active member of UN-RIAS and was involved in severaljoint audits in 2013.DOS actively participated in preparing the UN-RIAS lessons learned on the audits of "Delivering as one"programmes,later presented to the High-level Committee on Management. Under the leadership of the Office of Audit and Investigations of UNDP and DOS, UN-RIAS prepared and presented a note to the Fiduciary Management Oversight Group of the United Nations Development Groupon the experience gained in joint audits.The note summarizesthe challenges faced, somerequiring management support or action, such as: (a)clarifying expectations regarding joint audits (e.g., in terms of risk-based audit coverage, recipient(s) of joint audit reports, or funding for audits);(b) harmonizing policies, processes and procedures to reduceoperational and hence audit complexity; and(c) recognizing that disclosure of audit report policies, varying from full to no disclosure, adversely impacts on the issuance ofasinglejoint audit report. Some other challenges are for UN-RIAS members to address, e.g.,coordinating joint audits across multiple organizationswhile dealing with competing internal demands andconsolidating all existing joint audit frameworks into one (this work is led by DOS and the Office of Audit and Investigations). As part of the UN-RIAS continuous dialogue with the United Nations Development Group, UN-RIAS, under the joint leadership of DOS and the Office of Audit and Investigations, provided revised guidance on audit and investigation of joint programmes and proposed amended clauses on the same for the relevant legal instruments.

[18]Until June 2013, done thereafter by the Evaluation Office.
[19]Ibidem.

### B. Investigation

85. In 2013, as in previous years, DOS worked in close collaboration with other United Nations investigation services. DOS was also active in inter-agency investigation activities and support, in the meetings of the United Nations investigation offices and at the Conference of International Investigators. Further, DOS was an active participant in the working group on setting up external quality review mechanisms for investigation services.

### C. Joint Inspection Unit

86. Lastly, in 2013, DOS continued its role as the UNFPA focal point for the Joint Inspection Unit, interacting on about20 reports at various stages of completion with UNFPA units, the Joint Inspection Unit and the Secretariat of the Chief Executives Board.

## VIII. Overall conclusion and next steps

87. The results of the various DOSactivities, as well as the actions taken by management to address the issues raised by DOS, are positive indications of the increasing effectiveness of the governance, risk management and control processes at UNFPA. The continuing support of senior management, the Audit Advisory Committee and the Executive Board has enabledDOSto carry out its mandatesuccessfully.

88. The changes thataffected DOS in 2013, further to those on the disclosure of internal audit reports, require significant modifications to the UNFPA fiduciary oversight framework. First, what remained in DOS became in early 2014 the Office of Audit and Investigation Services, with a revisedcharter (included in annex 8 for information and also available on the UNFPA website), replacing the DOS charter from 2009.Second, two board-approved policiesmust be amended to reflect these changes, with proposals tabled separately: (a) the oversight policy (last approved in 2008); and (b) the financial regulations and rules (last approved in 2012).Third, twoExecutive Director-approved policies will be modified in the course of 2014:(a) the information disclosure policy; and (b) the fraud policy (both last revised in 2009).

89. In the future, the Office of Audit and Investigation Services will continueto improve its internal procedures and processes to further enhance the usefulness and credibility of the services it renders. The Office of Audit and Investigation Services remains ready to meet the challenges ahead, within the resources at its disposal.

# IX. Elements of a decision

90. **The ExecutiveBoard may wish to:**

**(a)** ***Take note*** **of the present report DP/FPA/2014/6;**

**(b)** ***Express*** **its continuing support for the strengthening of the audit and investigation functions at UNFPA;**

**(c)** ***Acknowledge and support*** **the engagement of the Office of Audit and Investigation Servicesin joint oversight activities;**

**(d)** ***Take note*** **of the annual report of the Audit Advisory Committee and the management response thereto contained in DP/FPA/2014/6(Add.1).**